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TAGS: PINR ECIN ECON EFIN EINV HO
SUBJECT: (C/NF) ECONOMIC OUTLOOK FOR THE HONDURAN DE
FACTO GOVERNMENT (C-AL9-01746)

REF: A. TEGUCIGALPA 000621
1B. TEGUCIGALPA 000697
1C. TEGUCIGALPA 000701

Classified By: MICHAEL P. OWENS, ACTING DIR, INR/OPS. REASON: 1.4(C).

11. (C/NF) WASHINGTON ANALYSTS ARE KEENLY INTERESTED IN THE ECONOMIC PROSPECTS FOR HONDURAS IN THE NEXT FEW MONTHS. WE HAVE APPRECIATED POST'S PREVIOUS ECONOMIC REPORTING AND CONTINUE TO FOLLOW THE CAPACITY OF THE DE FACTO GOVERNMENT TO OPERATE AND TO MAINTAIN SUPPORT, AS WELL AS THE CALCULATIONS MADE BY MICHELETTI, HIS ECONOMIC TEAM, AND HIS BASES OF SUPPORT IN RESPONSE TO INTERNATIONAL FINANCIAL ISOLATION. AS TIME AND RESOURCES PERMIT, WE WOULD APPRECIATE EMBASSY'S INSIGHT INTO THE FOLLOWING TOPICS AND QUESTIONS. MANY THANKS FROM WASHINGTON.

1A. (U) PROSPECTS FOR THE OAS DELEGATION

1B. (U) IF THE OAS SENDS A DELEGATION OF INTERNATIONAL MEDIATORS TO TEGUCIGALPA:

1) (U) WHO WOULD BE THE MOST INFLUENTIAL BUSINESS LEADERS FOR THEM TO PERSUADE?

2) (U) WHAT KIND OF NEGOTIATED OUTCOME MIGHT BE ACCEPTABLE TO THE BUSINESS COMMUNITY?

1C. (U) MICHELETTI AND HIS ECONOMIC CABINET'S CALCULATIONS

1) (U) WHAT ARE THE KEY ECONOMIC CONCERNS/FEARS OF MICHELETTI AND HIS TEAM? WHAT ARE THEY DOING TO COUNTER THE CURRENT CRISIS? WHO HAS THE GREATEST INFLUENCE ON MICHELETTI'S ECONOMIC DECISIONMAKING?

2) (U) WHAT IS THE CENTRAL BANK DOING TO REDUCE PRESSURE ON INTERNATIONAL RESERVES? IS IT CONSIDERING DEVALUATION OR CAPITAL CONTROLS?

3) (C/NF) REF A WARNS THAT CAPITAL FLIGHT MAY BE THE PRIMARY CAUSE FOR THE FALL IN RESERVES: DOES EMBASSY HAVE ANY FURTHER INFORMATION ON THIS ISSUE FROM THE CENTRAL BANK OR ANECDOTAL EVIDENCE FROM DOMESTIC BANKERS?

4) (C/NF) REF B PROVIDED A COMPREHENSIVE LOOK AT THE DE FACTO GOVERNMENT'S PENDING FINANCIAL NEEDS AND ESTIMATED HOW MUCH MORE INTERNAL AND EXTERNAL CREDIT WAS NEEDED. AS FURTHER INFORMATION BECOMES AVAILABLE, WE WOULD BE INTERESTED IN:

A) (U) ANY INDICATIONS THAT THE DE FACTO GOVERNMENT IS LOOKING FOR FINANCIAL ASSISTANCE FROM QUASI-STATE INSTITUTIONS OF OTHER NATIONS, SUCH AS PENSION FUNDS, SOVEREIGN WEALTH FUNDS, OR EVEN STATE-OWNED BANKS.

B) (U) ANY INFORMATION ON POTENTIAL HONDURAN BOND PURCHASES BY INTERNATIONAL OR DOMESTIC BANKS. OF PARTICULAR INTEREST WOULD BE THE TERMS OF THESE BONDS AND WHAT MEASURES THE DE FACTO GOVERNMENT MAY BE TAKING TO FIND BUYERS.

C) (U) ANY FURTHER INFORMATION ON THE FINANCIAL SOLVENCY OF THE DE FACTO GOVERNMENT AND ITS ABILITY TO MEET PAYROLLS AND OTHER SPENDING REQUIREMENTS. WILL ANY MINISTRIES IN PARTICULAR FACE REDUCED BUDGETS? ARE ANY PARTICULAR GOVERNMENT INITIATIVES AT RISK BECAUSE OF SPENDING CUTS?

D) (U) DOES EMBASSY HAVE ANY FURTHER INFORMATION ON THE DOMESTIC BOND MARKET AND THE GOVERNMENT'S PLANS FOR THE INTERNAL DEBTS COMING DUE IN OCTOBER?

5) (U) IS THE DE FACTO GOVERNMENT CONTINUING TO MAKE DEBT SERVICE PAYMENTS ON EXTERNAL DEBTS?

ID. (U) BUSINESS SECTOR SUPPORT:

1) (U) HOW UNITED IS THE BUSINESS COMMUNITY'S SUPPORT FOR MICHELETTI? WHICH BUSINESS ORGANIZATIONS OR SECTORS ARE THE MOST AND LEAST SUPPORTIVE OF THE DE FACTO GOVERNMENT?

2) (U) HAS SUPPORT FROM THE BUSINESS COMMUNITY ERODED SINCE THE START OF THE CRISIS? ARE SOME SECTORS PRIVATELY OR PUBLICLY PRESSURING MICHELETTI TO CONCEDE?

3) (C/NF) PER REF C, DOES EMBASSY HAVE ANY FURTHER INFORMATION ON BUSINESS LEADERS STARTING TO FEEL THE ECONOMIC PINCH?

4) (U) HAS THE AVAILABILITY AND TERMS OF CREDIT TO BUSINESSES CHANGED MUCH SINCE 28 JUNE?

5) (U) HAVE ANY INTERNATIONAL COMPANIES STOPPED ORDERS FROM HONDURAN FACTORIES? WHAT ARE THE VIEWS OF FOREIGN COMPANIES OPERATING IN HONDURAS?

IE. (U) GENERAL ECONOMIC CONDITIONS:

1) (U) HOW STABLE IS THE HONDURAN BANKING SECTOR, IE: DO WE EXPECT BANK RUNS?

2) (U) IS THERE A BLACK MARKET EXCHANGE RATE? HAVE WE SEEN EVIDENCE OF DOLLAR HOARDING?

3) (U) DOES EMBASSY HAVE INFORMATION REGARDING SHORTAGES OF CONSUMER GOODS?

4) (U) HOW MUCH HAS THE CURRENT CRISIS AFFECTED BUSINESS OPERATIONS? DO WE HAVE ANY OFFICIAL OR ANECDOTAL EVIDENCE OF LOSSES STEMMING FROM TRANSPORTATION DISRUPTIONS, CURFEWS, OR GENERAL UNREST?

5) (U) DOES EMBASSY HAVE ANY INDICATIONS OF THE LEVEL OF PRO-MICHELETTI OR PRO-ZELAYA SUPPORT OF THE AREAS MOST AFFECTED BY ANY OF THE AFOREMENTIONED DISRUPTIONS TO THE ECONOMY?

6) (U) HOW HAVE INTERNATIONAL AND DOMESTIC INVESTORS RESPONDED?

7) (U) WE HAVE SEEN THAT ORGANIZED LABOR MOSTLY SUPPORTS ZELAYA, HOW MUCH DOES THIS IMPAIR RELATIONS BETWEEN EMPLOYERS AND THEIR UNIONIZED WORKERS? ABOUT HOW MUCH OF THE HONDURAN LABOR FORCE IS UNIONIZED?

8) (U) WHAT ARE LOCAL ECONOMISTS SAYING ABOUT THE PROSPECTS FOR THE DE FACTO GOVERNMENT TO HOLD FIRM, AS WELL AS FUTURE GROWTH AND RECOVERY PROSPECTS?

9) (U) ARE THE IMF AND IDB COUNTRY REPRESENTATIVES STILL IN HONDURAS? IF SO, WHAT ARE THEY SAYING ABOUT THE PROSPECTS FOR THE DE FACTO GOVERNMENT TO HOLD FIRM, AS WELL AS FUTURE GROWTH AND RECOVERY PROSPECTS?

12. (U) PLEASE CITE C-AL9-01746 IN THE SUBJECT LINE OF REPORTING IN RESPONSE TO THE ABOVE QUESTIONS.
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